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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
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In the Matter of	97-249
Access Reform Tariff Filings	97-250

MOTION OF AT&T FOR LEAVE TO LATE FILE ITS PETITION AND COMMENTS

AT&T Corp. ("AT&T") respectfully moves the Commission for leave to late file its petition and comments in the Access Reform Tariff Filings, on December 11, 1997. AT&T's pleading, due December 10, 1997, could not be filed on that date due to a systemic computer virus which made it impossible to comply with the Commission's deadline. Grant of this motion will in no way interfere with the orderly review of the matter at issue, but will rather facilitate the Commission's analysis of the crucial reform proceeding it now faces. Therefore, AT&T respectfully requests that the Commission grant this motion for leave to late file.

Respectfully submitted,

/s/ Scott M. Bohannon
Scott M. Bohannon
Attorney for AT&T Corp.
1722 Eye Street, N.W.
Washington, D.C. 20006
(202) 736-8034

December 11, 1997

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In the Matter of	)
Access Reform Tariff Filings	)

PETITION AND COMMENTS OF AT&T CORP.

Gene C. Schaerr
Scott M. Bohannon
Carl D. Wasserman
1722 I Street, N.W.
Washington, DC 20006
(202) 736-8034

Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
Room 3245I1
295 North Maple Avenue
Basking Ridge, New Jersey 07920
(908) 221-8984

Attorneys for AT&T Corp.

Fax Reply To:

Safir Rammah, AT&T
(703) 691-6186
Fax: (703) 691-6314

December 10, 1997

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SUMMARY

In May 1997, the Commission issued its Access Reform Order and adopted a "market based" approach to interstate access charge reduction. Since that time, incumbent price cap LECs have continued to engage in egregious anticompetitive tactics which have stymied entrants' efforts to offer local services through unbundled network elements, an entry vehicle that might otherwise provide consumers with competitive alternatives. As a result, a set of downward adjustments to the price cap indices is the only mechanism capable at this time of ensuring that consumers receive at least some of the rate reductions promised by the 1996 Act.

The Commission has adopted a number of efficiency-enhancing interstate access charge reforms that are not only intended to promote recovery of costs in the same manner in which they are incurred, but also to move access rates closer to competitive, forward-looking prices. Unfortunately, the price cap incumbent LECs have failed to properly implement these reforms. And, as AT&T illustrates in this petition and these comments, the deficiencies revealed in the LECs' TRPs and tariffs will force interexchange carriers and their customers to incur approximately $200-$300 million or more in inflated access charges. Further, at least $150 million in charges will continue to be improperly collected through the TIC rather than through other more appropriate charges identified by the Commission. Together, these errors will distort investment signals, discourage efficient calling practices, potentially undermine local competition, and force long-distance customers to pay monopoly prices.

AT&T demonstrates in Part I of this petition that the Commission should immediately initiate an investigation into the line port and trunk port costs that the price cap LECs were to remove from the switching rate element. None of the price cap LECs has provided adequate

supporting material for these changes, and many have relied on internal, proprietary, and unverifiable costs models, making it virtually impossible to determine appropriate line port and trunk port costs. Moreover, to the extent AT&T could make sense out of the LECs' submissions, AT&T found wide variations in the percentage of line port investments to local switching investments. For example, U S WEST's percentages ranged from 33% in Arizona to 47.7% in South Dakota, while Ameritech used a single 27% value across all study areas. In addition, most of the LECs reported an investment percentage well below the industry estimates of 50%, and failed to apply these percentages to the appropriate revenue base. Other LECs made blatant calculation errors or reported wildly variable line port charges. AT&T estimates that these line and trunk port rate miscalculations will force consumers to pay more than $200 million in overstated interstate access charges in 1998 alone.

Part II illustrates that LECs have not taken seriously the Commission's Order to reduce TIC rates. To comply with the Commission's directives, LECs were required to remove one-third of the tandem revenue requirement from the TIC. Yet, several LECs have failed to perform this calculation properly. Consequently, in aggregate, these LECs have failed to remove over $60 million in tandem switching revenue.

Additionally, the LECs have improperly estimated impacts on the TIC resulting from the Commission's Order that actual minutes of use, as opposed to a presumed 9000 MOU, be used in calculating TIC revenue. The expected result was that LECs would use circuit loading below 9000 MOU, thus shifting revenue to common transport. However, the majority of LECs reduced common transport rates, inappropriately increasing the TIC by more than $57 million.

Some price cap LECs have also miscalculated MOUs by making errors in the DS1/DS3

multiplexer, and have failed to remove in the aggregate approximately $2.7 million from the TIC. Other LECs have failed to provide sufficient work paper detail to verify the validity of their tandem switched transport and common transport multiplexing revenue requirements and exogenous adjustments, likely resulting in a $20 million TIC inflation which should be investigated. Still other LECs have inflated their TICs by miscalculating or misapplying their DS1/DS3 multiplexers. And all price cap LECs have either failed to recalculate their residual and facilities-based TIC amounts or have done so, improperly resulting in an aggregate overstatement of the residual TIC by as much as $100 million, and perhaps more upon investigation.

In Part III, AT&T discusses how some price caps LECs also miscalculated exogenous cost adjustments associated with transport services rates. Instead of assigning costs from the TIC to each pricing zone in proportion to the existing revenues in that zone, these LECs improperly reassigned the costs entirely to zones 2 and 3 (and not zone 1), which had the unauthorized effect of increasing the rate differential among zones. These LECs should be directed to recalculate their exogenous adjustments with respect to transport services rates and to use the same methodology as the other LECs whose adjustments were applied across all zones of the affected services.

Part IV shows that price cap LECs have underestimated end user common line demand. More specifically, they have impermissibly reduced EUCL counts resulting in over $16 million being recovered in minutes of use rather than flat-rated charges. Further, many LECs have a higher count of PICC lines than EUCLs, and improper calculations of non-primary residential line counts.

In Part V, AT&T also requests that the Commission investigate the LECs' proposed CCL rates because as the Commission found in the Annual Filing Order, the LECs have consistently understated their BFP revenue requirements, and consequently have overstated their CCL rates..

Finally, as shown in Part VI, a number of LECs have misallocated USF exogenous costs among price cap baskets. Specifically, the cited LECs have overstated and understated end-user revenues in the price cap baskets, resulting in a misallocation of exogenous costs among the baskets.

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Access Reform Tariff Filings	)

PETITION AND COMMENTS OF AT&T CORP.

Pursuant to the Section 1.773 of the Commission's rules, 47 C.F.R. § 1.773, and DA-2358,[1] AT&T Corp. ("AT&T") hereby submits these comments on the price cap local exchange carriers' ("LECs"') Tariff Review Plans ("TRPs") and this petition challenging the interstate access tariffs filed by Ameritech (Transmittal No. 1135), BellSouth (Transmittal No. 434), GTOC (Transmittal No. 1123) and GSTC (Transmittal No. 226) on November 26, 1997. For the reasons discussed below, these filings raise significant questions of lawfulness which, at a minimum, will warrant suspension and investigation of the instant tariffs and those to be filed based on these TRPs.[2]

[1] Support Material For Carriers to File to Implement Access Charge Reform Effective January 1, 1998, DA 97-2345, TRP (released November 7, 1997).

[2] A tariff is subject to rejection when it is prima facie unlawful, in that it demonstrably conflicts with the Communications Act or a Commission rule, regulation or order. See e.g., American Broadcasting Companies, Inc. v. AT&T, 663 F.2d 133, 138 (D.C. Cir. 1980); MCI v. AT&T, 94 F.C.C.2d 332, 340-41 (1983). Suspension and investigation are appropriate where a tariff raises substantial issues of lawfulness. See AT&T (Transmittal No. 148), Memorandum Opinion and Order, 56 RR2d 1503 (1984); ITT (Transmittal No. 2191), 73 F.C.C.2d 709, 716, n.5 (1979) (citing AT&T (Wide Area Telecommunications Service), 46 F.C.C.2d 81, 86 (1974)).

INTRODUCTORY STATEMENT

These comments and this petition address five of the most serious deficiencies in the LECs' TRPs and associated cost support materials, as well as the interstate access tariffs filed by those LECs that have filed tariffs thus far. First, the LECs have failed to properly remove line port and trunk costs from local switching, and have provided little or no cost support material to justify this failure. Second, price cap LECs have generally calculated TIC rates in a manner at odds with the Commission's Access Reform Order. Third, U S WEST and Bell Atlantic have miscalculated exogenous adjustments associated with their transport rates. Fourth, all the price cap LECs have underestimated end user common line demand. And fifth, they have misallocated USF exogenous costs among price cap baskets.

As a result of these deficiencies, AT&T estimates that the price cap LECs' access rates either are or will be (once the necessary tariffs are filed) overstated by approximately $200-$300 million annually. But because price cap LECs have been successful thus far in illicitly deterring price constraining local entry everywhere in the United States, they remain the sole access provider for most access seekers. Hence, absent Commission investigation and suspension of these tariffs, interexchange carriers will have little choice but to pay these impermissibly overstated access fees, which represent costs that their customers will ultimately bear. Thus, correcting these deficiencies is essential to the Commission's continued efforts to ensure that access rates are cost-based, efficient, and fair to all customers and end-users.

I. THE COMMISSION SHOULD INITIATE AN INVESTIGATION INTO THE LINE PORT AND TRUNK PORT COSTS REMOVED FROM THE PRICE CAP LOCAL SWITCHING BAND.

Perhaps most important, the Commission should immediately initiate an investigation into the line port and trunk port costs that have been removed from the price cap local switching band. In the Access Reform Order[3] (at ¶¶ 1, 6), the Commission sought to "foster and accelerate the introduction of competition into all telecommunications markets" by reducing usage-sensitive interstate access charges. The Commission did so by "phasing out local loop and other non-traffic sensitive (NTS) costs from those charges and directing incumbent local exchange carriers (LECs) to recover those NTS costs through more economically efficient, flat-rated charges." Id. ¶ 6. The Commission sought to remove NTS costs from interstate access charges because "the recovery of NTS costs on a usage basis amounts to an implicit subsidy from high-volume users of interstate toll service to low-volume users of interstate long distance services," (id. ¶ 6), and because such an implicit subsidy "generates inefficient and undesirable economic behavior[.]" Id. ¶ 30.

Consistent with these principles, the Commission concluded that the non-traffic sensitive costs of the local switch associated with the end user's common line ("EUCL") i.e., line side port costs (including the costs associated with the line card, the protector, and the main distribution frame), should be recovered on a flat-rated basis, rather than a usage sensitive basis. Id. ¶ 125. Accordingly, the Commission reassigned all line-side port costs from the Local Switching band element to the Common Line basket. Id. Price cap LECs are to recover these costs through the

[3] In the Matter of Access Charge Reform, CC Docket No. 96-262, First Report and Order (released May 16, 1997) ("Access Reform Order").

common line rate elements, including the Subscriber Line Charge ("SLC") and the new flat-rated Pre-subscribed Interexchange Carrier Charge ("PICC"). Id. ¶ 126.

The Commission expected price cap LECs to incur differing line port costs in the provision of different end user services such as basic voice grade service and integrated services digital network ("ISDN"). Id. The Commission anticipated line port costs to differ based upon switch technology and manufacturer. Id. ¶ 128. The Commission, however, limited the scope of the SLC and PICC cost recovery mechanisms to only those costs associated with a line port used to provide basic, analog service, regardless of whether the end user has basic, analog service or another form of service. Id. ¶ 126. To the extent that a line port's actual costs exceed the costs of a port used for basic, analog service, price cap LECs will recover this excess amount through a separate end-user charge. Id.

In addition, the Commission concluded that the costs of a dedicated trunk port (including the trunk card and DS1/voice-grade multiplexers, if needed) currently included in the cost of the local switch are also NTS in nature, and therefore should be recovered on a flat-rated basis from the carrier purchasing the dedicated trunk terminated by that port. Id. ¶ 127. The Commission further held that the costs of shared trunk ports should be recovered on a per-minute of use basis from the users of common transport trunks. Id. Accordingly, the Commission ordered price cap LECs to move these trunk related costs from the Local Switching rate element to two new trunk transport rate elements in the Traffic-Sensitive basket. Id.

Because the Commission ordered price cap LECs to remove line port costs and trunk costs from Local Switching, and the Commission did not establish a fixed percentage of local switching costs that LECs must reassign to the Common Line basket or the newly created Trunk

Cards and Ports service category within the Traffic-Sensitive basket, the LECs had to determine what percentage of their Local Switching costs were represented by line port and trunk port costs. The Commission stated that, in light of the widely varying estimates in the record, each price cap LEC should conduct a cost study to determine the geographically-averaged portion of the interstate local switching costs attributable to their line-side ports and to their trunk-side ports. Id. ¶ 128. The price cap LECs were to reflect these amounts, including cost support, in their access tariffs effective January 1, 1998. Id.[4]

LECs have failed to comply fully with these requirements in four crucial respects. First, none of the price cap LECs has provided adequate cost support material, making it virtually impossible to determine appropriate line and trunk port costs and precluding proper rate setting. Second, price cap LECs' TRPs reveal wide variations in the percentages of line and trunk port investments to local switching investments, with most reporting an investment ratio far below the Commission's expectations. Third, SNET made an error in calculating line and trunk port costs. And fourth, GTOC's and GSTC's ISDN line port charges are unreasonable.

Thus, for the reasons shown below, the Commission should suspend any access tariffs based upon the November 26, 1997 cost support filings, subject those tariffs to an accounting

[4] To facilitate its review and that of other interested parties, the Common Carrier Bureau (the "Bureau") issued a Tariff Review Plan Order requiring price cap LECs to submit workpapers summarizing the key methods and findings of cost studies, including the development of exogenous costs and methods of reallocation, and sufficient information to support those summaries, including (a) a detailed description of study methods; (b) data sources; and (c) detailed investment, capital and operating expense, and overhead loading and other costs used in the cost studies. Support Material For Carriers to File to Implement Access Charge Reform Effective January 1, 1998, DA 97-2345, TRP ¶ 13 (released November 6, 1997) ("1997 Tariff Review Plan Order").

order, and begin an investigation into the line port costs that should removed from the Local Switching rate element.

A. None Of The Price Cap LECs Has Provided Adequate And Sufficient Cost Support Material.

Instead of providing workpapers summarizing the key methods and findings of cost studies and sufficient information to support those summaries, the price cap LECs' line port cost support merely make reference to internal, proprietary, and non-verifiable sources of information. For example, SNET cites the BellCore cost model Switching Cost Information System ("SCIS") (SNET Appendix E), and U S WEST cites its own Switching Cost Model ("SCM") (U S WEST D & J at 8). In no case have these LECs justified the use of these models for this purpose.

The use of these internal, proprietary, and unverifiable cost models is inappropriate for rate-setting purposes. The SCIS and SCM models are very complex and rely on hundreds of input variables. If the price cap LECs are not required to provide the input values and cost scenarios they employed, the Commission and other interested parties will not be able to determine whether the models accurately reflect line port costs. At a minimum, then, the price cap LECs should be required to make these input values and cost scenarios available under the Bureau's nondisclosure order.[5]

If the Commission allows the price cap LECs to use models like SCIS and SCM, it also should establish criteria with which these models must comply before their results can be used for ratemaking purposes. State Commissions have already adopted such criteria in similar

[5] Support Material For Carriers to File to Implement Access Charge Reform Effective January 1, 1998, DA 97-2461, Order (released November 24, 1997).

proceedings. For example, the Texas Public Utilities Commission created a "decision point list" which contains numerous variables that LEC cost models, including SCIS, must use for purposes of estimating interconnection rates,[6] and the Oklahoma Commission is close to establishing a similar decision point list. Further, the Federal-State Joint Board on universal service has issued criteria that a cost proxy model must use in identifying universal service costs,[7] and the Commission itself, in the same Docket 96-45, the Federal-State Joint Board, is currently investigating the detailed characteristics a universal service cost model should exhibit.[8]

Ground rules are necessary because the price cap LECs use these cost models in different and inappropriate ways. For example, Ameritech stated that it developed a "special" study of line port investments which was then used to develop a ratio of line port investments to total local switching investments, producing a 27% factor for the company as a whole.[9] By contrast, SWBT and SNET[10] employed SCIS to produce a unit investment amount for line ports which was expanded to total investment by multiplying it by the number of lines in service.

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[6] Commission Recommendation on Costing and Pricing Scenarios/Rate Sheets, Texas PUC, Docket 16226/16285 (released Dec. 1, 1997).

[7] Federal-State Joint Board on Universal Service, CC Docket Nos. 96-45, Recommended Decision (released November 8, 1997).

[8] Federal-State Joint Board on Universal Service, Forward Looking Mechanism for High Cost Support for Non-Rural LECs, CC Docket Nos. 96-45, 97-160, Further Notice of Proposed Rulemaking (released July 18, 1997).

[9] Ameritech D&J at 13 ¶ 5.4.1.

[10] See, e.g., SNET TRP § II.D and Appendix E.

Moreover, SWBT's and SNET's uses of SCIS are completely inappropriate. SCIS purports to be a forward-looking, incremental cost model[11] and, to the extent this characterization is accurate, it cannot be used to identify the amount of embedded costs associated with line and trunk ports. A forward-looking unit investment would represent the investment in that unit if it were placed into service today. It would not represent what the LEC invested in years past to install these units, the embedded base. The embedded investment was used in the separations process to develop the interstate local switching basket. If these LECs are removing only their forward-looking costs, they are understating the line port costs in relation to the total embedded interstate local switching basket. Hence, because the model only removes forward-looking costs, the residual embedded base of local switching is overstated, leading to higher than expected Local Switching rates. SWBT and SNET have opposed prescription of interstate access rates to forward-looking costs. If they wish to employ forward-looking costs in this self-serving manner, they also should be required to use forward-looking costs uniformly in setting access prices.

In light of the critical importance interstate access rates will play in the development of telecommunications competition and the prices consumers will pay for long distance services over the next few years, the Commission should not simply rely on LEC assurances that their proprietary, unverifiable models properly estimate costs. Rather, they must affirmatively demonstrate that their models satisfy objective criteria established by the Commission. Without

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[11] BellSouth comments in Florida dockets 960833-TP/960916-TP, Appendix D "SCIS Overview," November 13, 1997. See also, "Paper on BellCore's Switching Cost Information System Cost Model -- A Practical Approach to a Complex Problem," submitted by Viktor Schmid-Bielenberg, June 20, 1990, to the Symposium on Marginal Costs Techniques for Telephone Services, conducted by the National Regulatory Research Institute.

such a demonstration the LECs' tariffs raise a substantial issue of lawfulness, and therefore must be investigated.

B. The Price Cap LECs' TRPs Reveal Wide Variations In The Percentages Of Line Port Investments To Local Switching Investments.

In the absence of adequate supporting information, AT&T attempted to analyze the price cap LECs' November 26, 1997 filings to determine whether these carriers had correctly removed line port costs and trunk port costs from Local Switching costs. AT&T found wide variations in the price cap LECs' reported percentages of line port investment to local switching investment, and in reported percentages of line port revenues removed from total local switching revenues. AT&T also found that, within individual LEC TRPs, different percentages were reported for line port investment to local switching investment than were reported for line port exogenous costs to local switching revenues. These wide variations raise substantial issues of lawfulness and highlight the need for additional LEC documentation and justification concerning their line port costs, as well as for Commission guidance on this issue.

Examples of these wide variations in LECs' reported percentages of line port investment to local switching investments can be seen in the filings of U S WEST and Ameritech. U S WEST's investment ratios range from a low of 33% in Arizona to a high of 47.7% in South Dakota for digital switches, and from a low of 27.5% in Minnesota to a high of 37.7% in Wyoming for analog switches.[12] By contrast, Ameritech used a single 27% value across all study areas and all switch types.[13]

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[12] U S WEST, November 26, 1997 Access Reform Tariff Filing, Workpaper 4 at pp. 2, 9, 12, 15.

[13] Ameritech, November 26, 1997 Access Reform Tariff Filing, Transmittal 1135, Exhibit 6, line 5.

Although the Commission did expect variations in this investment ratio due to switch types and manufacturers (Access Reform Order ¶ 128), the Commission also noted that independent industry estimates indicate that 50% or more of the local switching investment would be associated with line and trunk ports.[14] Because the LECs' reported percentages show such wide variation and fall well short of expectations, the LECs should be required to justify and document -- by switch type and manufacturer -- the investments that were included in the line port costs.

Once a price cap LEC has determined this investment ratio, it should apply the same percentage to the actual revenues in the local switching band in order to equitably distribute any over earnings or under earnings to the line port, and to prevent distortion in the residual local switching band from overstatement or understatement of the amount of costs to be recovered from the local switching rates. Several of the LECs, however, applied a different percentage to local switching band revenues and, as result, their line port investment percentages generally are substantially higher than their percentages of line port exogenous costs to local switching band revenues. (See Exhibit A).

For example, Ameritech's line port investment percentage is 27%, while its line port exogenous cost percentage to the local switching basket is 17.2%. (See Exhibit A). BellSouth's the line port investment percentage is 30.8% while the line port exogenous cost percentage to the local switching basket is 21.2%. (See Exhibit A).

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[14] Jurisdictional Separations Reform and Referral of the Federal-State Joint Board, CC Docket No. 80-286, Notice of Proposed Rulemaking ¶ 78 n.141 (released October 7, 1997).

C. Most LECs Applied Their Line Port Percentages Incorrectly.

Not only did the LECs miscalculate line port investment percentages, most LECs also misapplied these percentages by applying them to an inappropriate local switching basket base. Line port investment percentages should be applied to the actual revenues in the local switching band because this base will distribute the correct portion of costs in the basket to the line port costs for recovery from the Common Line basket. Using forward-looking costs will understate the embedded costs that were originally assigned to the local switching band in the separations process. Consequently, the residual local switching band will be distorted by an overstatement of the amount of costs to be recovered from the local switching rates. Most of the LECs, however, did not apply their line port percentages to this base and, as result, their line port investment percentages generally are substantially higher than the percentage of line port exogenous costs to local switching band revenues.

Many of the LECs have calculated an interstate revenue requirement for local switching. This revenue requirement is a theoretical amount of costs based upon their previous year's separations results shown on their ARMIS 43-01 or 43-04 reports and an assumed return on net investments of 11.25%. But this does not represent what the LECs are actually recovering from their access customers in the local switching band. By moving a smaller amount from local switching than is appropriate, the LECs will overstate their local switching band, resulting in higher local switching rates. As depicted in Exhibit A, Ameritech's line port investment percentage is 27% while its line port exogenous cost percentage to the local switching band is 17.2%. In the BellSouth territory, the line port investment percentage is 30.8% while its line port exogenous cost percentage is 15.6%. In SNET's calculation of line port costs, it computed a

local switching interstate revenue requirement based on an 11.25% return. This method resulted in an interstate revenue requirement of $63.6 million, while the interstate net revenue for the Local Switching category, as reported in SNET's 1996 ARMIS 43-01 Report for calendar year 1996, was $102.1 million. These LECs apparently applied their line port percentages to their local switching interstate revenue requirements in ARMIS rather than to their actual TRP local switching revenue. Because these revenue requirement calculations result in substantially less than their actual revenues reported in the TRPs, the LECs' calculations result in too little revenue assigned to line ports and too much to the usage rate.

D. SNET Made An Error In Calculating Line Port Costs.

Commission rules allocate to the interstate jurisdiction the investments and expenses for local switching on the basis of the Dial Equipment Minutes ("DEMs") (see 47 C.F.R. 36.125(b)). Under the Commission's Part 36 separations rules, line port investments are included in the investments of the local switch. Therefore, all LECs have allocated the costs of line ports to the interstate jurisdiction based on their DEMs. The LECs were required to identify these line port costs already assigned to interstate and remove them from the local switching basket. SNET has identified unseparated line port investments and then allocated them to interstate using a 25% allocator. SNET's actual reported interstate allocator for local switching was 20% for 1996 as shown on its most recent ARMIS 43-04 report, line 1219 column C Interstate divided by line 1219, column A Subject to Separations. Commission rules require the use of a 25% flat allocator, called the Base Allocation Factor (see 47 C.F.R. § 36.154(c)), in assigning the costs of the subscriber's loop to the interstate jurisdiction. That is the cable and wire costs and the circuit equipment costs of providing end user access to the LEC switch.

Even though these costs already have been assigned to the interstate jurisdiction, SNET's D&J, p. 4 states, "[a]ll other line port costs were assigned 25% to interstate." This attempt to overallocate line port costs to the interstate jurisdiction is an overt violation of the Commission's rules.[15]

E. GTOC's and GSTC's ISDN Line Port Charges Appear To Be Unreasonable.

Though GTOC and GSTC, like other LECs, also filed inadequate cost study material, it is clear that their reported ISDN line port charges are unreasonable. In the Access Reform Order (at ¶ 126), the Commission required the LECs to establish separate end-user charges to cover the cost of ISDN line ports to the extent ISDN line port costs exceed the costs of a port used for basic, analog services. And the Commission required the LECs to conduct a complete cost study to isolate the "geographically-averaged" portion of switching that made up the costs of the line port. Id. ¶ 128.

GTOC and GSTC have established rates for the ISDN Line Port End User charge that vary widely among the different states they serve. (See Exhibit B). For example, GSTC's rate for a BRI arrangement ranges from $1.76 per month in California, to a rate of $17.21 in the neighboring State of Nevada. GSTC's rate for a PRI arrangement fares no better, varying from $25.44 in California to $188.67 in Nevada. And GTOC's rates for ISDN Line Port charges show the same pattern of extreme variation among its different study areas. GTOC, nevertheless, provided neither sufficient cost study material to justify its ISDN line port rates nor any explanation for this large variation in the ISDN line port rates.

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[15] See 47 C.F.R. Sec. 36. 25(b).

Of course, as the Commission has correctly noted, it is likely that the NTS portion of local switching costs varies among LEC switches. Nevertheless, the magnitude of the variation among GTOC's and GSTC's proposed ISDN line port rates cannot be attributed to cost variability between switch types. Consequently, the Commission should suspend and investigate the ISDN Line Port End User charges that GTOC and GSTC propose.

II. PRICE CAP LECS HAVE OVERESTIMATED TIC RATES THOUGH THEIR FAILURE TO MAKE THE ADJUSTMENTS REQUIRED BY THE ACCESS REFORM ORDER.

In addition to their complete mishandling of line port costs, the price cap LECs have grossly overestimated their transport interconnection charges (or "TICs"). The Commission established the "TIC" in an effort to recover the difference between revenues from new facility-based rates and revenues that would have been realized under the old "equal charge" rule. The restructured transport rates were to more closely account for how costs are actually incurred, as opposed to the previous rule which required BOCs to charge a per-minute, distance-sensitive rate for their transport offerings, regardless of how the underlying costs arose. Access Reform Order ¶ 210. The TIC was always intended to be an interim measure during transport restructuring because it was recognized that the TIC contains charges which more properly belong in other cost categories. Indeed, the Commission officially recognized that the TIC "adversely affects the development of competition in the interstate access market" (id. ¶ 212) and thus has ordered that it be gradually phased out. Hence, the Commission has actively looked for ways to eliminate the TIC, ordering reallocations of revenue from the TIC and various recalculations regarding this bundle of charges. All price cap LECs have abused the Commission's Orders through

miscalculation, inconsistency, and disregard. The end result is harmful to competition, and ultimately to the consumer.

A. Price Cap LECs, Such As U S WEST And GTOC, Have Miscalculated The Removal Of The One-Third Tandem Revenue Requirement From The TIC.

The Commission has been engaged in an ongoing process of reallocating revenues which have been placed in the TIC, in accordance with its finding that the TIC is inefficient and anticompetitive. Currently, 80% of the revenue requirement associated with tandem switching is recovered in the price cap LECs' TIC. In the Access Reform Order (at ¶ 212), LECs were required to determine current amounts of Tandem Switching costs present in the TIC and, less adjustments for SS7 and Tandem Ports, reallocate one-third of these costs to the tandem switching rate element on January 1, 1998 as an exogenous cost change. Unfortunately, price cap LECs have made significant errors in calculating the tandem switching revenue currently recovered in the TIC.

To determine the amount of tandem switching costs currently in the TIC, LECs were first required to calculate the ratio of tandem switching revenues to total TIC revenues as reported in the Local Transport Resale ("LTR") filings submitted in 1993. This quotient was then to be applied to the LECs' TIC revenue requirements in effect on June 30, 1997. This procedure thus determines the tandem switching revenues currently being recovered through the TIC. This amount, less adjustments for signaling and dedicated port costs, must be removed from the TIC in three parts beginning January 1, 1998. Because price cap LECs have made mathematical and methodological errors in implementing this process, they have consistently overstated the revenue they are to generate from the TIC. As a result, acceptance of their calculations would eviscerate the Commission's efforts to recalculate the TIC and reduce its anticompetitive impact.

While U S WEST has developed the appropriate ratio with respect to tandem switching revenues to total TIC revenues from the 1993 LTR filing, it has applied this ratio to an erroneous current TIC amount. (See Exhibit C). In its workpapers, U S WEST claims current TIC revenues of $324,659,863, creating a tandem switching funding level of $42,561,775. U S WEST's *actual* TIC revenues, however, as determined from the 1997 Annual Access Filing, are $506,396,252. Applying the same ratio U S WEST itself developed, the current tandem switching revenue captured in the TIC would be $66,584,252. Therefore, U S WEST's tandem switching reallocation from the TIC -- less its separately targeted exclusions of $18,472,000 for signaling and tandem port costs -- should be $48,112,252, nearly 200% higher than the $24,089,775 figure it submitted in this filing. Therefore, $16,037,417, or one-third of the actual tandem switching revenue, must be removed from U S WEST's TIC on January 1, 1998.

GTOC has also greatly underestimated its tandem switching costs currently in the TIC, miscalculating the amount of tandem switching and the ratio of tandem switching costs to total TIC revenues from the 1993 LTR filing. (See Exhibit D). In the current filing, GTOC has incorrectly calculated its 1993 tandem switching costs captured in the TIC, claiming them to be $45,366,000. GTOC's 1993 LTR filing, however, demonstrates that the 80% of tandem switching revenue recovered in the TIC at that time was $67,236,100. GTOC, although required to use this amount for the present tariff, did not do so, thereby producing an erroneous ratio of tandem switching costs to total TIC revenues from the 1993 LTR filing. Based on the 1993 LTR Filing, GTOC's total TIC funding was $140,890,732. Applying the corrected ratio ($67,236,100/$140,890,732) to the current TIC revenue requirement, $179,313,284, shows that tandem switching costs presently captured in GTOC's TIC are actually $85,572,172, not the